The rise and rise of West African oil

Countries such as Nigeria and Angola are catching the eye of investors from across the globe

Ocean frontier: Shell's Bonga floating production storage and offloading vessel

AS crude exports to Asia surge, West Africa's oil sector has attracted rising investment from Asian national oil companies (NOCs), seeking to shore up supplies, a trend analysts say will continue.

Exports of West African crude to Asia have jumped by more than 50% over the past five years as economic growth fuels demand. In 2012, China, India, Indonesia and other Asian nations bought more than 660 West African cargoes, equivalent to a record average of 1.72 million barrels per day (b/d). For years, Asia sourced oil from Africa's largest producers, Nigeria and Angola, through various term deals and on the spot market. But since 2004, the Asian NOCs have increasingly started to secure upstream blocks in West Africa, too.

Nevertheless, western international oil companies (IOCs) still dominate Africa's upstream, helped by decades of political experience, as well as their technological prowess, but this is changing as African states seek to diversify their relationships and strike better deals, says Alex Vines, Africa programme director at UK think tank Chatham house.

In spite of the political and security risks involved, West Africa, particularly Nigeria, remains attractive for the Chinese companies because of its vast reserves, estimated at 68.3 billion barrels of oil equivalent (boe), says Wendy Yong, an analyst at consultancy Facts Global Energy. Indeed, Chinese firms are at the forefront of Asian expansion into the major West African oil-producing countries, Nigeria, Angola and Gabon.

But Elias Pungong, African oil and gas leader at consultancy Ernst & Young, says the Asian investment cycle in West Africa's oil sector is only just getting started and has a long way to go yet.

Energy research firm Wood Mackenzie estimates the upstream portfolio value for the major Chinese NOCs in West Africa at $24.1 billion or only 4% of their total combined global upstream footprint. Of that, Sinopec accounts for $10.3 billion, which includes the proposed acquisition of Total's stake in the Usan field offshore Nigeria.

China National Offshore Oil Corporation (Cnooc) has a value of $8.4 billion, including Nexen's assets, which the firm is now digesting. The remaining $5.4 billion is attributed to PetroChina.

The three NOCs' production in West Africa is forecast to hit 256,000 b/d this year, with Sinopec taking 152,000 b/d, Cnooc 78,000 b/d and PetroChina 26,000 b/d. West Africa will make up about 5% of total Chinese NOC production in 2013, says Wood Mackenzie.

Generally most of their overseas production is sold into the international market, rather than being shipped back to China, as the NOCs remain commercially driven, analysis by the International Energy Agency shows.

However, while some Nigerian and Cameroonian oil is sold into the spot market, much of the Angolan equity oil does go back to China. "It may be partly about quality, but also the Angolan model has different layers, a lot of the oil is equity payments in return for Chinese loans," says Vines.

Elsewhere, China's NOCs have yet to take significant exploration positions in West Africa's frontier regions, with the exception of a few licences in Mauritania, Niger, Chad and Equatorial Guinea, points out Normal Valentine, an analyst at Wood Mackenzie. But over time the frontier plays, which are being opened up by independents, such as Tullow Oil, will become a more important part of their strategy, he adds.

Secrets

Over the past decade, Beijing preferred secretive government-to-government deals to secure access to oil supplies in West Africa. Oil-for-infrastructure deals, supported by billions of dollars of Chinese financed loans, were so successful in Angola – to the detriment of the IOCs and other Asian NOCs – that the nation emerged as the second-biggest supplier of oil to China, after Saudi Arabia. But attempts to court Nigeria, where the IOCs dominate, did not work and such oil-for-infrastructure deals are now becoming less prevalent across the region.

Instead the IMF and the World Bank have pushed for greater transparency and market pricing in transactions.

Over the past five years, investment

Repsol takes pre-salt search to West Africa

AS Spain's Repsol looks to its post-YPF future it has set its sights firmly on West Africa's pre-salt potential, where the company has high-risk, high-reward exploration wells lined up and is on the hunt for new acreage.

The industry's biggest players have rushed to snap up exploration deals in West Africa's pre-salt play in the hope that it proves to be as prolific as Brazil's pre-salt region on the other side of the Atlantic. Geologists believe, and early drilling has indicated, that the geological structures found on both sides of the Atlantic are similar, having formed more than 165 million years ago when the African and South American continents separated.

"When we made the first discovery in Brazil the idea was to look for the best spot in Africa where we could replicate the success," Didier Lluch, Repsol's regional exploration manager for West and East Africa, told *Petroleum Economist*. Repsol has been among the most successful foreign companies in Brazil's pre-salt play, where it has a stake in the Sapinhoá and Carioca oil discoveries.

Lluch credits the company's experience in Brazil for its success in Angola's 2011 licensing round, when it won stakes in three blocks in the pre-salt Kwanza Basin. "We work very closely with our team in the Americas. We are in Angola because we have the know-how and the technology to properly image the seismic in the pre-salt domain, and that's why I think we were selected by Sonangol," he said.

Early indications are that the bet will pay off. Cobalt International Energy, which was the first to kick off its pre-salt exploration campaign, proved Angola's pre-salt potential with the Cameia discovery. The company has not released its own reserves estimate for the find, but analysts predict it could be more than 2 billion barrels.

Repsol will drill at least six wells across its three Angolan blocks by the end of 2016, with the first well expected in mid-2014. Repsol is also exploring Namibia's offshore pre-salt potential, where it acquired an operating stake in Licence 0100 in December 2012. Like Angola, Namibia has been touted as a pre-salt exploration hotspot, especially after Repsol, BP and Brazil's Petrobras acquired acreage in the country.

Tempering the excitement somewhat were two unsuccessful pre-salt wells drilled by UK-listed independent Chariot Oil & Gas last year. Repsol, though, remains optimistic about its prospects in the country. "People have focussed on the negative aspects of Chariot's well. But for us there was some very good news out of this well in that they found a very good reservoir and we are targeting the exact same reservoir," Lluch said. "I don't think the Chariot well has any negative bearing on our well."

Repsol has contracted a drillship that is being built in Singapore for its West Africa pre-salt campaign. The ship will arrive in Namibia in late 2013 or 2014, where it will drill an exploration well at Licence 0100, near Chariot's unsuccessful Tapir-South 1 well, before moving north to Angola.

"The pre-salt wells are difficult wells. But we have very good experience in Brazil and this is a major advantage for us. In terms of geology the wells we are drilling in Angola look a lot like the wells in Brazil. The knowledge we acquired in Brazil will really help," Lluch said.

The company is looking to add to its West African pre-salt portfolio, and has turned its attention to Gabon, which has seen some pre-salt exploration success. The country plans to hold a deep-water bidding round in June, after new oil legislation is put in place. "We are looking forward to the round of negotiations in Gabon. This is of high interest to us," Lluch said. **JJ** ●

has been mostly led by acquisitions, but exploration and asset development will gradually become more important for the Chinese NOCs, says Valentine. Last November, Sinopec agreed to buy French major Total's 20% stake in deep-water block OML 138 off Nigeria, home to the producing Usan oilfield, for about $2.5 billion.

Analysts say the NOC is paying a hefty premium, with RBC Capital Markets estimating the asset is worth $2.1 billion, while Bernstein Research noted that Sinopec is paying $21.93 per boe in the block, twice the industry average over the past five years.

Despite uncertainty surrounding future government policy, the Chinese company believes Nigerian oilfields are worth the investment and more deals could be on the cards.

Total is seeking to divest up to $20 billion worth of global assets by end-2014, which could offer further opportunities in Nigeria, as the OML 138 Block only represents about 10% of the French firm's 240,000 b/d output in the country. Yong agrees, saying the Chinese NOCs are keen to develop expertise in deep-water exploration and production by establishing more joint ventures with foreign partners in the region.

However, it is unlikely Sinopec will take over operatorship from Total, given its lack of experience. Instead one of the OML 138 partners, ExxonMobil or Chevron, each holding 30% stakes, is expected to take the reins.

Eventually, Chinese state-owned oil companies will end up with a 40% holding in the block, as Nexen, which has a 20% interest, is being taken over by Cnooc. Sinopec's global expansion drive reached West Africa in 2009, when it bought Addax Petroleum for $7.2 billion, including reserves in Nigeria, Cameroon and Gabon.

Lately, Maurel & Prom's producing assets in Gabon have also drawn the attention of Sinopec, as well as from Indonesian NOC Pertamina and Oil India. Last year the French company's production hit more than 20,000 b/d in Gabon, where it is one of the biggest producers. But Maurel & Prom, which denies talk of a potential merger, is far smaller than the other two big operators, Total and Shell, which produce about 60% of Gabon's 245,000 b/d output.

Compared to China, other Asian nations, particularly Japan, remain more risk averse and appear cautious about investing in West Africa. But times are changing. Pungong believes West Africa is actually more secure now in comparison to the Middle East, which provides the bulk of Asia's oil imports. He says India and South Korea are chasing commercial deals with the support of the IMF and World Bank.

Meanwhile, Thailand's PTT Exploration and Production, is also seeking more opportunities, following its recent acquisition of Cove Energy that secured a position in a promising gas play off East Africa. **DE** ●